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Japan Wine Market Annual Report

2003

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Report Highlights:

Japan's bottled wine imports fell 4 percent by volume from June 2002 to May 2003, but rose 2 percent in value. Despite a sluggish market overall, US exports rose 23 percent by volume over this same period. US market share in CY 2002 was slightly less than 11 percent and slightly more than 8 percent in volume and value terms, respectively, both down from the previous year. However, figures for 2003 are expected to improve given the rebound in US exports that began in the second half of 2002. American wine exports continue to face strong competition from France, although that country's market share dipped slightly in 2003. Australia and South Africa are also increasing exports. Nevertheless, the outlook is positive for US wine, as the overall market recovers and imported wine further erodes the market share of traditional spirits and domestic wine. Moreover, the deregulation of alcohol retailing, which took effect in September 2003, presents new opportunities.

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JAPAN WINE MARKET ANNUAL REPORT

I. INTRODUCTION

1.1 Executive summary

Japan's wine market continues to recover from the wine boom/bust of the mid- to late-1990s. After several years of stagnation, US wine exports are once again rising. For US producers in particular, there are at least four reasons for optimism regarding the growth potential of the Japanese wine market:

- **Consumer tastes are changing.** Although total alcohol consumption in Japan has been flat to declining in recent years (see Fig. 2, p. 3), wine consumption has risen more than threefold since 1965 (see Fig. 6, p. 6). Nevertheless, significant potential for growth remains. The table below indicates that wine accounts for a mere 6.3 percent of the total alcohol consumption in Japan, by far the smallest share among large country consumers.

Fig. 1: Cross-country comparison of adult per capita alcohol consumption
(liters per year)

Country	Total consumption	Wine consumption	Wine as a share of total alcohol consumption (%)
Portugal	16.6	7.2	43
France	13.3	8.3	62
Germany	12.5	3.3	26
South Africa	11.5	5.0	43
Spain	11.2	4.6	41
Australia	10.3	3.4	33
UK	9.7	2.3	23
Argentina	9.6	6.9	71
Italy	9.2	7.1	77
USA	9.1	1.7	18
Romania	8.0	3.4	42
Korea	6.8	> 0.1	*
Japan	6.3	0.4	6
China	5.2	0.1	2

*: less than 0.5%

Source: Alcohol Database, WHO.

Note: Consumption volume is converted to 100% alcohol equivalent.

- **Japanese wine drinkers are becoming more aware of the high quality, reasonably priced wines produced in other parts of the world, including the United States.** Although France remains synonymous with wine for many, the growing popularity of “New World” wines, including those from the United States, Australia, and South Africa, reveals a growing sophistication and willingness to experiment on the part of the Japanese consumer (see Section 3.1 “Consumption trends,” pp.6-7).
- **The decline in the dollar versus the euro has enhanced the competitive position of US wines.** This can be seen in the strong rebound in US wine exports over the past 12 months (see Appendix II, Table 2, p. 26).
- **Deregulation of the alcohol retailing market is advantageous to US producers.** Starting in September 2003, restrictions on the sale of alcoholic beverages by retailers are being lifted. As supermarkets and convenience stores find it easier to sell wine, US products are likely to find new opportunities to increase both volume and market share, particularly given their strength in the lower-end products on which such new outlets are likely to focus (see Section 3.4.1 “Retail,” p. 16).

1.2 Structure of this report

This report is designed to provide an overview of current trends and likely future developments in the Japanese wine market for US wine exporters. Section II begins with an alcoholic beverage market overview outlining overall alcohol consumption trends.

Section III broadly examines consumption trends in the Japanese wine market in demographic and regional terms. This section also analyzes the domestic and imported wine markets, providing a brief outline of major wine exporters’ activities in the Japanese market. Section III concludes with an analysis of the distribution channels for wine and the implications for US exporters.

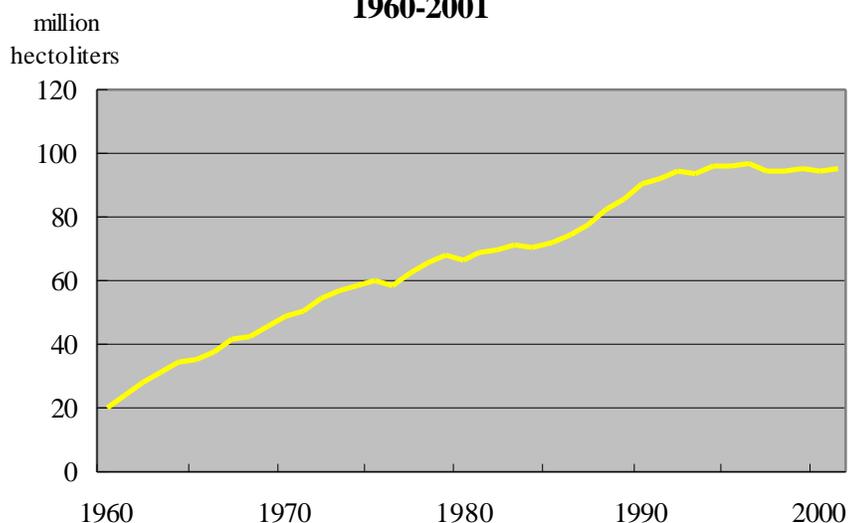
Section IV, the final section of the report, concludes with a discussion of the major regulatory and tax issues affecting the wine market in Japan. The report also includes two appendices, the first of which provides information on major regulations covering wine imports. The second is a set of statistical tables providing additional data on wine exports to Japan.

II. AN OVERVIEW OF JAPAN'S ALCOHOLIC BEVERAGE MARKET

2.1 Japan's changing alcohol consumption

Japanese alcohol consumption has increased steadily for several decades, in line with Japan's rapid economic growth. Consumption subsequently leveled off (see Fig. 2) as Japan entered a decade of recession, which it appears to be leaving behind in 2003. At the same time, the composition of Japan's alcohol consumption continues to undergo rapid change.

**Fig. 2: Japan Alcohol Consumption
1960-2001**



Source: National Tax Agency Annual Report, 2003

Beer: Beer traditionally accounts for more than half of Japan's total alcohol consumption, but it has faced increased competition from cheaper low-malt beers since 1994.

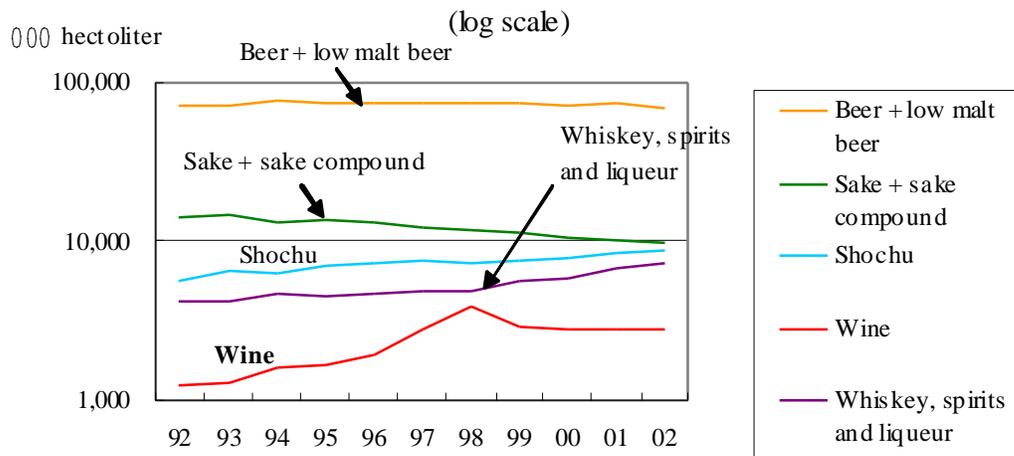
Sake: Consumption of traditional Japanese rice wine is slowly but steadily declining.

Shochu: This traditional distilled spirit most often made from grain, is enjoying a bit of a renaissance, particularly in Tokyo, resulting in a rise in consumption in recent years.

Liqueurs: These are used most often in mixed drinks. Because of their relatively low cost and low alcohol content, liqueur-based drinks are popular with women and young people.

Wine: Wine consumption has been on a rising trend since the 1960s, although it has experienced several booms and busts. The most recent "red wine boom" of 1997/98, saw consumption double compared to earlier years. After the end of the boom, consumption declined somewhat, but again, the trend is up as wine has become increasingly accepted by consumers.

**Fig. 3: Japanese alcohol consumption by product group
1992-2002**

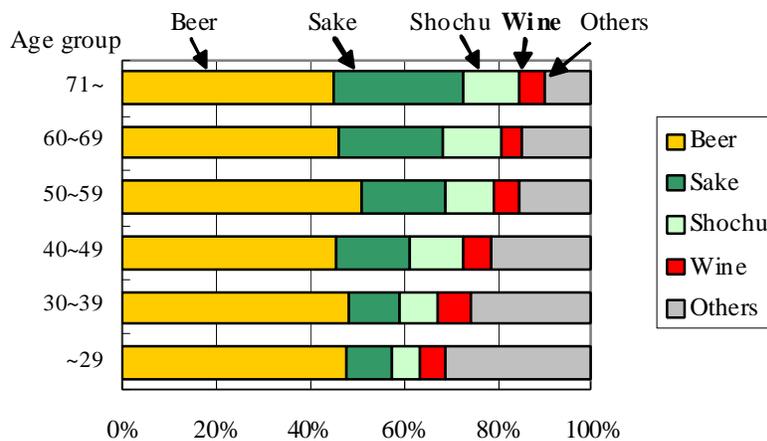


Note: Volume is converted to 100% alcohol equivalent.
Source: Monthly Statistics Journal of Food and Liquor, April 2003

2.2 Demographic breakdown of Japanese alcoholic beverage consumption

According to household expenditure figures compiled by the Statistics Bureau of Japan, beer, including low-malt beer, accounts for almost 50% of total alcohol consumption among all age groups. Sake and shochu are more popular with older consumers. Wine is most popular in the 30-39 age group (see Fig. 4).

Fig. 4: Alcohol beverage consumption by age group



2.3 Geographical breakdown of Japanese alcoholic beverage consumption

Most wine in Japan is consumed in major urban areas, with more than 60% of all premium wines consumed in Tokyo alone. In rural areas, beer, sake and shochu remain the alcoholic beverages of choice. Nevertheless, people in smaller towns and the countryside do represent a significant market, particularly for lower priced wines sold in two-liter or three-liter packages at discount

stores. According to one trade interview, if such low-end wines can build a presence in rural areas, overall demand for wine in Japan will expand significantly.

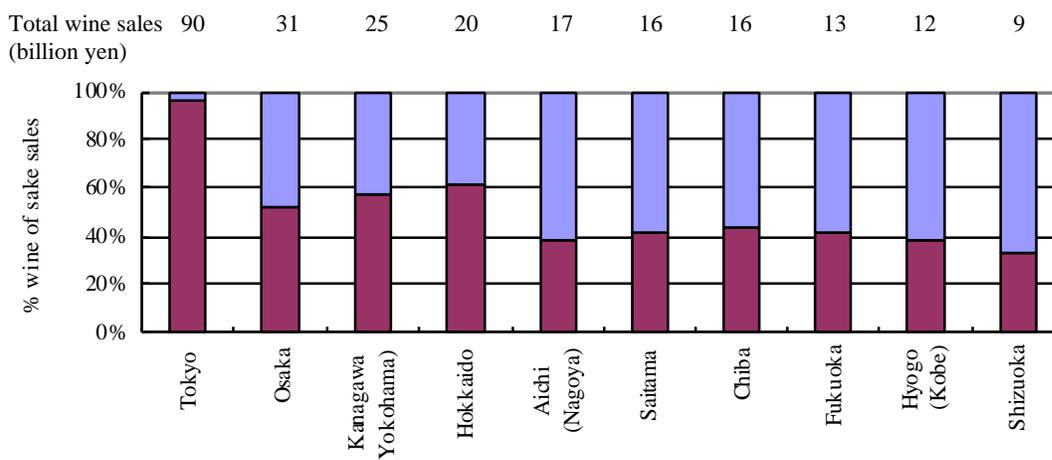
Fig. 5: Consumption of wine and other alcoholic beverages by prefecture, FY 2001 (¥ bil)

Prefecture	Wine		Beer	Sake	Shochu	Total
	Total	Per capita (000 yen)				
Tokyo	87	8.82	335	86	80	772
Osaka	28	4.10	216	53	31	459
Kanagawa (Yokohama)	24	3.53	126	46	41	341
Hokkaido (Sapporo)	18	4.14	102	31	34	264
Aichi (Nagoya)	14	2.82	153	41	24	322
Saitama	13	2.52	93	34	33	246
Chiba	13	2.87	77	31	26	211
Hyogo (Kobe)	11	2.69	98	34	16	229
Shizuoka	8	2.69	63	25	19	154
National Average	7	3.45	51	18	14	122

Source: National Tax Agency Annual Report, 2003.

The table below shows wine sales as a percentage of sake sales in various regions. In Tokyo, the sales of wine nearly equal those of sake. In other areas, wine sales are equal to about half of sake.

Wine sales as a % of sake sales



Source: Monthly Statistics Journal of Food and Liquor, January 2003

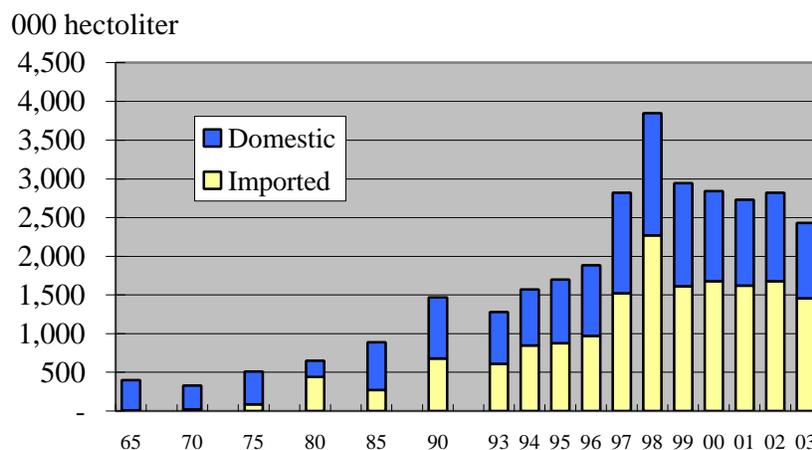
III. Wine Market Overview

3.1 Consumption trends

As mentioned in the previous section, the Japanese wine market has continued to expand over the past four decades and consumption remains strong. To date, there have been at least six surges in wine consumption since the end of World War II. One such spurt occurred when domestic wine first became available for less than ¥2,000 in 1978. Another spurt occurred in the late 1970s and early 1980s when sweeter German wines became popular. The Beaujolais Nouveau boom followed in the late 1980s.

The most important boost to the industry, however, was an explosion of consumer interest in red wine in the 1990s, driven by a series of scientific reports touting the health benefits of red wine. When these benefits became widely known in Japan in 1998, consumption more than doubled. However, this led to a buildup of excess inventories that took more than two years to clear, causing a subsequent bust—one that was exacerbated by stagnant-to-declining consumption. According to the latest information from Japanese importers, the overall market may have bottomed out in 2003 (see Fig. 6).

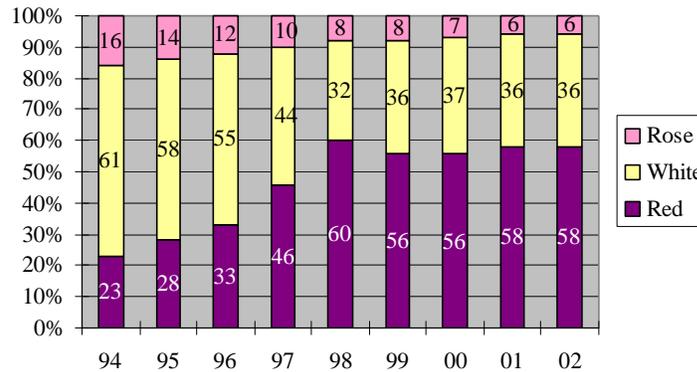
**Fig. 6: Japanese wine consumption
1965 to 2003**



Source: National Tax Agency.

With respect to type of wine consumed, until the 1980s, Japanese showed a preference for sweet, fruity, white wines, which accounted for more than half of all consumption. But since the red wine boom of 1997/98, red wine has taken a more than 60% share. The shares of red and white have reversed in the past five years. And rosé has, in general, failed to catch on with consumers and its share has declined (see Fig. 7).

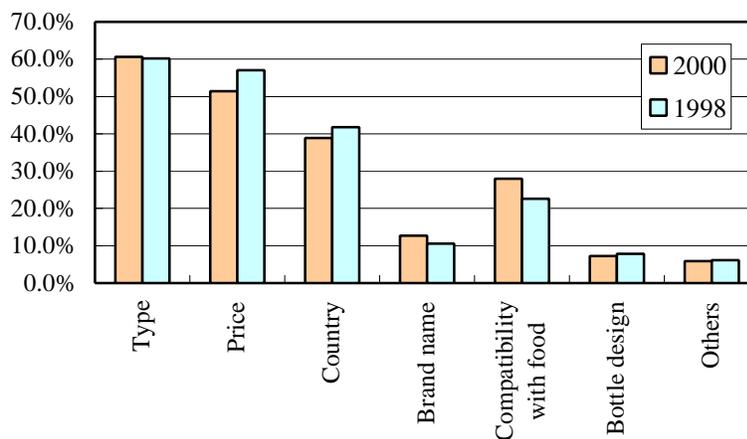
Fig 7: Wine consumption by type, 1994-2002



Source: 2003 Wine Annual Report, Mercian.

Surveys of 1,500 consumers conducted in 1998 and 2000 by Japanese winemaker and importer, Mercian, revealed type, price, and a major country of origin as the three most important factors in buyers’ purchase decisions. As Japanese consumers become more familiar with wines and more discriminating, price has become slightly less important, while the product’s compatibility with food has risen in importance. Although a slightly higher percentage of respondents in 2000 mentioned brand name as an important factor than in 1998, this criterion was only cited by slightly more than 10 percent of respondents (see Fig. 8).

Fig. 8: Factors influencing wine purchase decisions



Source: 2003 Annual Wine Report, Mercian

The table below shows annual expenditures on wine in Japan from 1994 to 2001. Over the period, the average cost per liter declined some 15 percent from ¥10,840 to ¥9,240. This reflects both deflation in the Japanese economy as a whole and the increasing popularity of moderately priced “New World” wines.

Note that while total spending on alcohol declined significantly over the period, wine consumption doubled, expenditures on wine rose by nearly 70 percent, and wine’s share of the total alcoholic beverage market doubled - from 3.0% to 6.1%.

Fig. 9-A: Annual expenditures on wine, 1994-2001
Fiscal Year (April-March)

Year	Expenditure (¥bill)	Quantity (kl)	Avg. cost per liter (¥000)	Total expenditure on alcohol (¥bill)	Wine Share of total alcohol expenditure %
1994	207	19,000	10.84	6,860	3.0
1995	211	22,000	9.57	6,660	3.2
1996	227	24,000	9.37	6,540	3.5
1997	329	34,000	9.78	6,510	5.1
1998	443	44,000	9.98	6,360	7.0
1999	401	41,000	9.68	6,130	6.5
2000	369	40,000	9.26	5,880	6.3
2001	349	38,000	9.24	5,720	6.1

Volume is converted to 100 % alcohol equivalent.

Source: Monthly Statistics Journal of Food and Liquor, April, 2003

Fig. 9-B: Share of wine of total Japanese alcohol expenditure



Source: National Tax Agency Annual Report, 2003.

3.2 Domestic wine

In Japan, two types of wine are classified as “domestic”: 1) wines that are produced with more than 50% domestic grapes; and 2) wines that are fermented in Japan. Some wine labeled domestic is actually a blend of domestic and imported wine, especially bulk wine, and some is made from imported grape must (concentrated grape juice) and fermented in Japan. The share of truly domestic wine is thus only about 10 percent of the total labeled as such.

According to the National Tax Agency, domestic wine shipments are recovering, but the figures given below include non-wine beverages such as grapefruit soda liquor, which are classified under the same category as wine. Thus, sales of domestic wine are still decreasing slightly (see Fig. 10).

Fig. 10: Domestic wine shipments, 1998-2002

Year	Volume (hectoliters)	Increase (or decrease) from previous year (%)
1998	1,519,500	42.5*
1999	1,252,450	(17.6)
2000	1,153,020	(7.9)
2001	1,101,060	(4.5)
2002	1,110,040	0.8

* 1998 was the year of the red wine boom.

Source: National Tax Agency Annual Report, 2003.

The table and chart on the next page show the domestic wine market is dominated by a few large companies, with the top three taking nearly three-fourths of all sales. Domestic producers focus largely on low price wines (less than ¥1,000 per bottle). Overall, sales of domestic wine for January through July 2003 have declined by 20 percent compared with the previous year. This is largely due to the fact that Suntory shifted the source of its flagship product, Delica Maison, from domestic wine to a wine imported from France. Other major companies, meanwhile, have substantially increased their sales of domestic wine. And the large domestic producers (i.e., Mercian, Suntory, Sapporo, and Kikkoman) are attempting to differentiate their products based on quality or other attributes such as organic or additive-free wines.

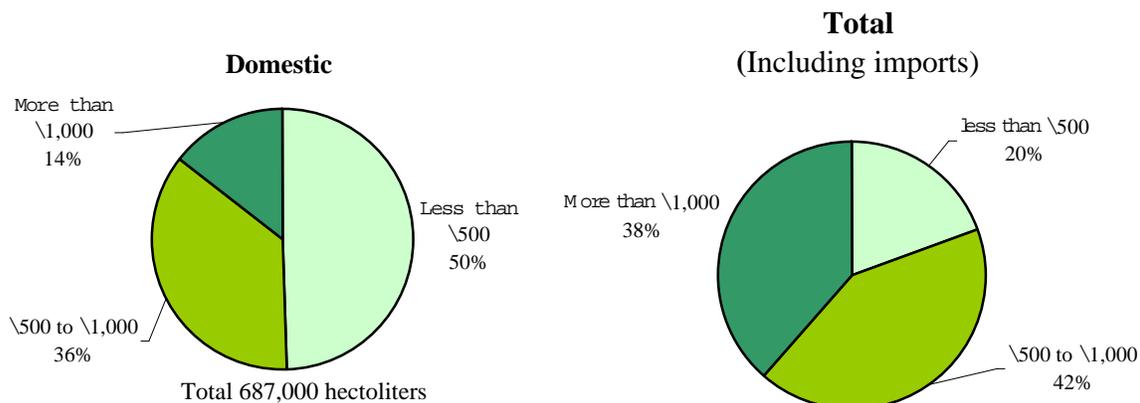
Fig. 11: Market share of major Japanese wine manufacturers, 2001-2003

(¥ mil, %)

	2001		2002 (estimated)		2003 (forecast)	
	Sales	Share	Sales	Share	Sales	Share
Mercian	18,600	33.2	18,000	31.3	17,400	30.9
Suntory	14,300	25.5	15,500	26.9	14,500	25.8
Sapporo Beer	8,200	14.6	8,500	14.8	8,600	15.3
Kikkoman	7,000	12.5	7,400	12.8	7,500	13.3
Asahi Beer	3,100	5.5	6,400	11.1	6,600	11.7
Others	1,950	3.5	1,800	3.1	1,700	3.0
Total	56,000	100.0	57,600	100.0	56,300	100.0

Source: Fuji Keizai

Fig. 12: Wine sales by price range, 2002

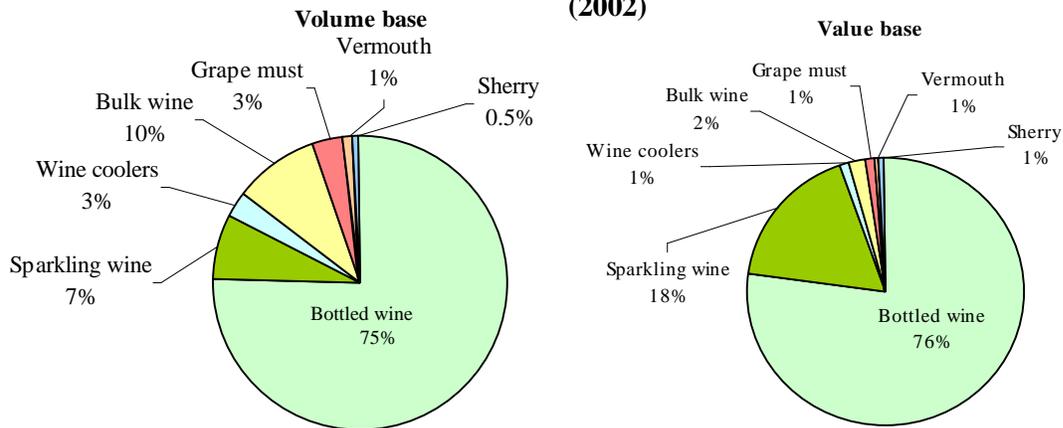


Source: WANDS, April, 2003

3.3 Imported wine

More than half of all wine consumed in Japan is imported. Both in volume and value terms, more than three-fourths of these imports are bottled wines. Thus, we focus on the market for bottled wine.

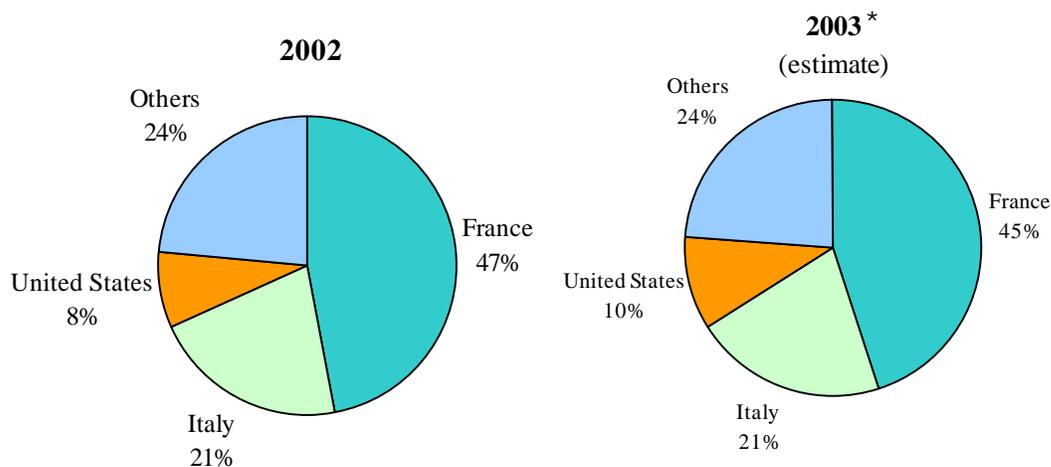
Fig. 13: Breakdown of Japanese wine imports (2002)



Source: Trade Statistics, Japan Customs

As reflected in France’s dominant market share (see Fig. 14a), Japanese people strongly associate wine with France. Other producers, however, including Italy, the US, Chile, Australia, and Spain are gradually increasing export volumes to Japan.

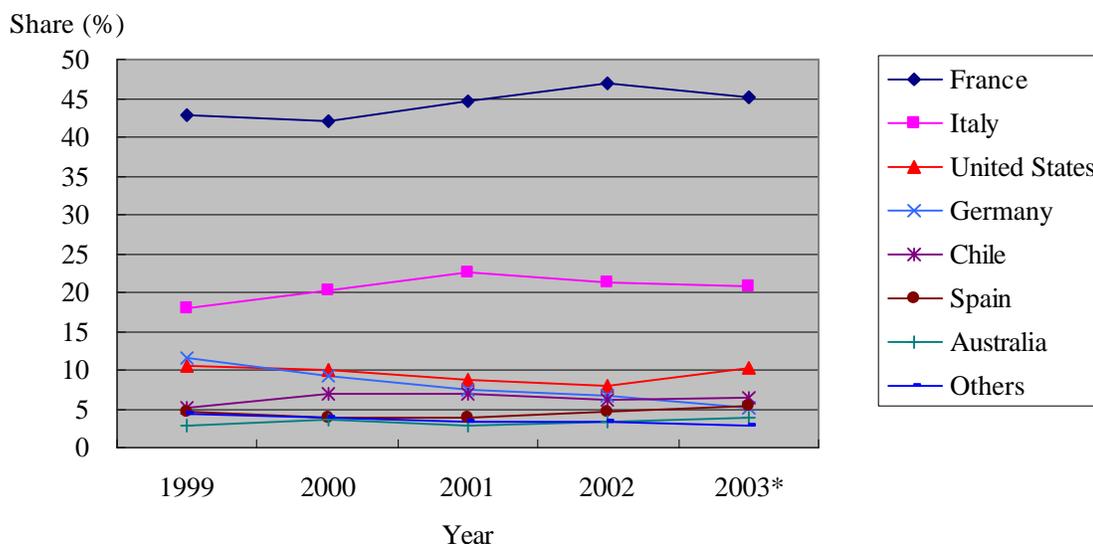
Fig. 14-A: Bottle wine import share by country



*2003 is estimated

Source: Trade Statistics, Japan Customs.

**Fig. 14-B: Share of bottled wine imports by country
1999-2003**



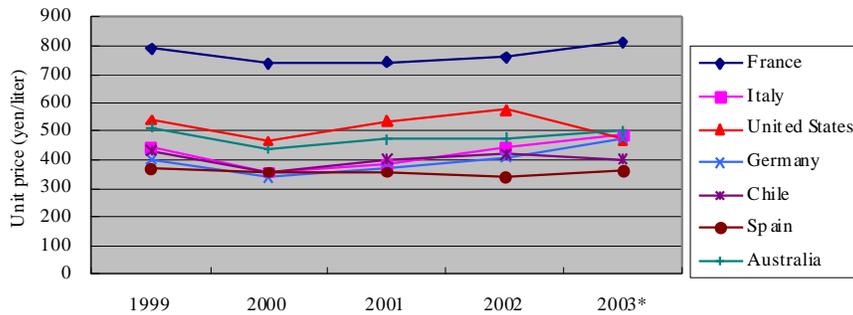
Share of bottled wine imports by country					
	1999	2000	2001	2002	2003*
France	43	42	45	47	45
Italy	18	20	22	21	21
United States	11	10	9	8	10
Germany	12	9	7	7	5
Chile	5	7	7	6	7
Spain	5	4	4	5	5
Australia	3	4	3	3	4
Others	4	4	3	3	3
Total	100	100	100	100	100

*2003 is an estimate

Source: Trade Statistics, Japan Customs

The chart on the next page compares the average price per liter for bottled wine over the last five years. The US lost share in 2000 and 2001 (see above chart and table) as US wines rose in price relative to other countries. The US has regained share in 2003, however, as the average price declined. The same trend can be seen for French wine. In 2003, when the average price rose, it lost market share.

Average price for bottled wine by country
1999-2003



*2003 is calculated using nine-month data.
Source: Trade Statistics, Japan Customs.

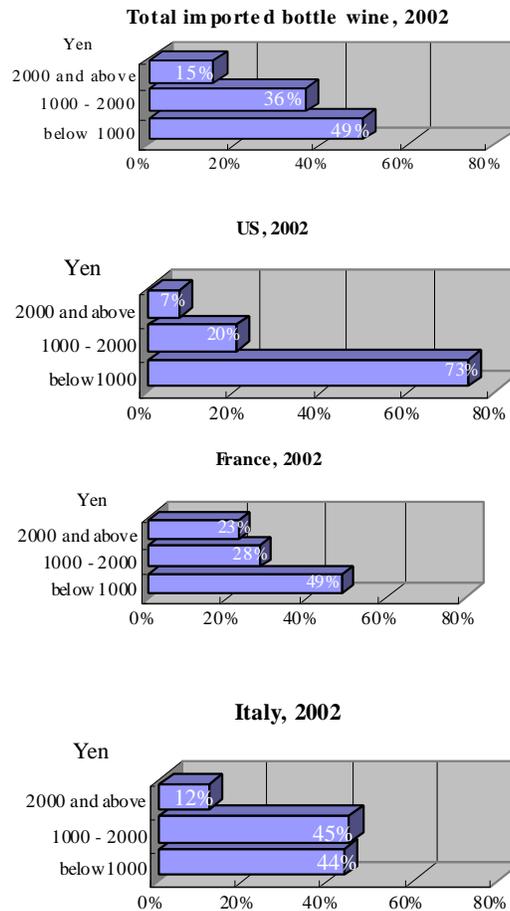
3.3.1 United States

Recovering from the stagnation that followed the wine boom of 1998, US wine exports to Japan are now enjoying expanding sales. Jan-July 2003 exports of American bottled wine jumped 22.9 percent compared to the year-ago period. One reason for this increase was an agreement between a Japanese top liquor producer and one of the US' biggest wine producers in early 2003.

US wines predominantly target the lower end of the market, although in recent years premium US wines are attracting greater interest. Mid-range products (¥1,000 to ¥2,000) account for roughly 20 percent of sales.

Three major California wine brands are the main drivers of the low-end market for US wines. These products are popular in supermarkets, discount stores, and convenience stores in Japan. American mass-market wines are taking market share from domestic competitors.

Fig. 15 Sales break down by price segment



Source: WANDS, April, 2003.

Mid-range products face a stiff challenge from the French, Italian, and Chilean wines that dominate this segment. In addition, demand from mid-priced restaurants appears to be falling.

On the other hand, sales of US premium wines are rising steadily. It appears the “California Wine by the Glass” campaign, in which about 300 restaurants serve the California wines, is helping to build and expand awareness of these products. Other wine producing states, including Washington and Oregon are also attracting market interest. Indeed, American wines can now be found at Chinese, Japanese and even French restaurants in Japan, in addition to those that serve American cuisine.

With respect to the retail market, US wines are selling well at online wine shops, but less well in specialty and department stores. One constraint to US wine exports appears to be the difficulty in negotiating sufficient shelf space in retail stores. Several importers have also commented that longtime California wine buyers have begun to lose interest in the products due to rising prices over the past decade. Thus, it is new customers that are driving consumption of premium US wines.

3.3.2 France

For many Japanese wine drinkers, France is synonymous with wine. It offers a broad range of products and is strong in all price segments. French wine exports to Japan in 2002 totaled 62 million hectoliters, an increase of 4.9 percent over the previous year. A highly successful TV advertising campaign for Bordeaux wines helped boost exports of this variety to 15.2 million hectoliters, a 14.8 percent increase over the previous year. Beaujolais, which has been popular in recent years, sold about 7 million hectoliters in 2002, nearly 80 percent of which was the well-known Beaujolais Nouveau. Actually, it is said Beaujolais Nouveau has already hit the peak since 1998, but its sales still makes a new record every year as a seasonal product at year-end. Chablis, Burgundy, Languedoc, Cote du Rhône and Loire are also popular varieties.

3.3.3 Italy

Italian wine exports to Japan exploded in the 1990s along with the growing popularity of Italian cuisine and a sharp rise in the number of Italian restaurants. But sales have leveled off in recent years. Exports in 2002 totaled 277,000 hectoliters, a decline of 5.5 percent from the previous year. Price competition has hit Italian wines at the lower end of the market, where they are relatively weak; and mid-range products are also coming under price pressure. Stricter enforcement of drunk driving laws has also reduced consumption of Italian wine, which is heavily dependent on the restaurant market.

3.3.4 Chile

Chile, one of the most successful “New World” producers, emerged in Japan around 1998 as a maker of reasonably priced, good quality wine. But excess inventories in subsequent years has led to steep price discounts and a “cheapening” of the country’s brand image.

3.3.5 Germany

German wine exports, which are predominantly white wines, have fallen by half since the red wine boom in Japan in 1998.

3.3.6 Australia

Although its market share remains small (3% of imports in 2002), Australia is campaigning aggressively in Japan to raise exports to Japan, including a major promotional exhibit at Japan's largest food trade show, FOODEX 2003. Moreover, many Australian wines compete directly with US wines in terms price and quality. Australia's activities and market strategy in Japan thus bear close monitoring.

3.3.7 Promotional activities of European and New World competitors

Various organizations established by US competitors are promoting wine exports to Japan. Their activities include publishing newsletters; producing point-of-purchase materials; and organizing press conferences, exhibitions, trade shows, and other marketing events. Two quasi-governmental trade organizations promote French wines in Japan. France's SOPEXA, which has a budget of approximately ¥800 million (\$6.7 million) and a staff of 12, devotes most of its time and funding resources to promoting French wine for on- and off-premises sales. This includes a hefty increase for television advertising and other promotional activities, focused on Bordeaux regional wines. In addition, the Comité Interprofessionnelle du Vins de Champagne (CIVC) has an annual budget of \$250,000 and maintains two staff in Japan.

Similarly, Italy's governmental body, ICE, promotes Italian wine exports to Japan. ICE has a wine promotion budget of approximately ¥50 million (\$420,000) and a staff of three. It is currently stressing off-premises sales, particularly at discount stores. Germany promotes wine exports through an agent of the quasi-governmental German Wine Foundation, Japan Office, which was set up in April 2000. The office has a staff of two and a budget of ¥50 million. Spain's promotional activities are reportedly run from the Spanish embassy, with one staff member and a budget of \$170,000.

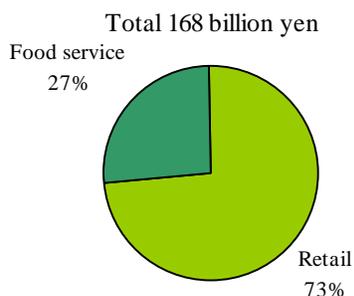
Among "New World" producers, the Chilean embassy employs one staff member who promotes Chilean wine exports to Japan with a budget of ¥10 million (\$84,000). Wine of Australia is a promotional body that operates under the auspices of the Australian Wine Export Committee (AWEC). Its Japan office was set up in July 1998 and is aggressively promoting Australian wine exports in close cooperation with the Australian Embassy. It has two staff members and a budget of ¥40 million (\$340,000). The Wine Institute of South Africa set up a Tokyo office in July 2000. It has one staff member carrying out mostly trade-targeted activities with a budget of \$84,000.

3.4 Distribution channels

Nearly three-fourths of all wine consumed in Japan is sold at retail; the balance is sold at restaurants and bars.

Fig. 16: Wine sales by channel

FY 2002



3.4.1 Retail

Wine distribution is regulated under the Liquor Tax Law, which applies to retailers that hold liquor licenses. Domestic wine distribution is generally a three- or four-tiered system from manufacturer to retailer, with one or two wholesalers in between.

There are many types of retail distribution channels:

- Direct imports by Japanese domestic manufacturers (e.g. Mercian, Suntory);
- Imports through specialist trading companies;
- Direct imports by department stores or large discount stores, which sell through their own channels;
- Imports by specialist wine importers, which sell products directly to consumers.

In the late 1980s as some discount stores and importers started to import wine directly, the price of imported wine in Japan fell to the international market price. As more and more low-priced wines appear on the market, the sales share of mass merchandisers and convenience stores is sure to grow. Online retailers are also seeing strong increases in sales, as they focus on small-lot shipments and lowering logistics costs.

Deregulation of liquor retail licensing

In September 2003, the Japanese government loosened restrictions on the granting of liquor licenses. This long-awaited deregulatory measure is certain to boost the number of liquor-selling retailers throughout the country and will have a profound impact on the way alcoholic beverages are sold in Japan.

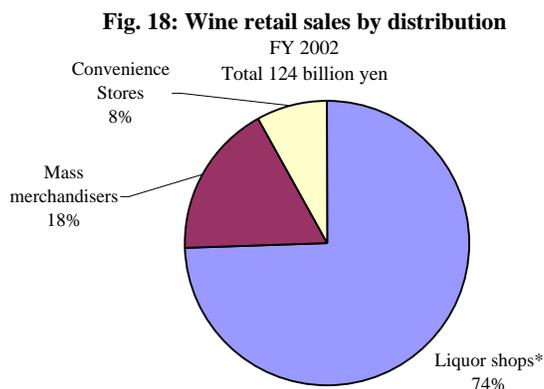
The next table shows the change in the number of liquor wholesalers and retailers over the past several years. As direct import channels have been established, wholesalers have begun to play a less important role and their numbers are declining. In addition, more than 25,000 small- and medium-scale liquor retailers have shut their doors in the run-up to deregulation. The table does not reflect this change because 2002 is the most recent year for which data is available. Moreover the number of retailers, even as recently as this year, is not expected to rise drastically as the government has slowed down the process of deregulation in some parts of the country to give smaller retailers time to adjust. This has prevented some large nationwide chain stores from entering the business all at once. Nevertheless, the number of retailers is likely to increase significantly in 2003-04. According to the latest data available, the number of new applications for liquor licenses through September 2003, when deregulation went into effect, was 19,970, 50% more than for all of 2002 (13,889).

Fig. 17: Annual change in number of liquor license-holders (1997-2002)

	Wholesale	Retail	Total
1997	17,117	166,883	184,000
1998	16,847	171,848	188,695
1999	16,627	175,095	191,722
2000	16,489	177,482	193,971
2001	16,250	176,873	193,123
2002	15,983	182,022	198,005

Source: National Tax Agency 2003

Many potential sales channels for alcohol have been created by deregulation (e.g., supermarkets, general merchandise stores, and drugstores). Other prospective outlets for wine include home delivery retailers (e.g., cake shops, florists, and pizza delivery companies). Most of the new sales channels created by deregulation are likely to focus on lower-end products, where US wines are well positioned.



* Mainly individually operated, but also includes department stores, etc.

Source: Fuji Keizai.

IV. KEY ISSUES AFFECTING THE WINE MARKET

4.1 Deregulation of alcoholic beverage distribution

In September 2003, Japanese government relaxed restrictions on the retailing of alcoholic beverages. This is expected to significantly boost the number of liquor retailers throughout the country and will greatly affect the way alcoholic beverages are sold in Japan (see Section 3.4.1, pp. 16-17).

4.2 Liquor tax increase

In May 2003, a tax increase on wine was implemented equivalent to some ¥10 per 750ml bottle. Domestic winemakers passed this increase on in higher retail prices. Overseas wine exporters' reaction has been mixed. Some say they will raise prices, while others say they will bear the cost of the tax increase.

4.3 Exchange rate issues

The euro-yen exchange rate has been more volatile than expected. Whereas in 2000 the euro traded at around ¥105, this year the euro has risen substantially to around ¥130, after hitting a high of about ¥140. This rise in the euro translates to a 25 percent increase in the price of European wine, which has had a much larger impact on demand than the liquor tax increase. In contrast, the dollar, which had traded between ¥120 and ¥130 over the past year, has subsequently weakened, hitting a low of ¥108. If the dollar remains at this rate, it is likely to substantially boost US wine exports.

4.4 Organic wine

European and American consumers are increasingly conscious of food safety and the environment. Reflecting these concerns, many California wineries are producing organic grapes and wines. This trend toward a greater concern for the environment and food safety is also apparent in Japan, where consumers are showing increasing interest in organic products. According to one manager of a specialty wine shop, "The share of organic wine sales is still less than 10 percent of the total, but the number of organic wine drinkers is definitely increasing. They don't mind paying higher prices for organic wine."

Since 2001, foods and beverages must meet the requirements of the JAS (Japan Agricultural Standards) law to be certified organic in Japan. Thus, US producers can arrange to be certified in the United States under the USDA's organic program. This will ensure approval under JAS, which recognizes US standards. As for imported alcoholic beverages, the Japanese government recognizes the organic standards of certain countries, including the United States. Despite the new JAS organic standards, some importers complain that the rules are ambiguous and fail to meet consumer needs.

APPENDIX I: LEGAL REGULATIONS RELATED TO THE WINE TRADE

1. Food Sanitation Law requirements

Under the Food Sanitation Law, the Japanese Ministry of Health, Labor and Welfare (MHLW) outlines the permissible quantities of wine coloring agents and preservatives used as additives. All wine imported as gifts, or for sale and other commercial purposes is subject to the Food Sanitation Law, and import notification is required. A “Notification Form for Importation of Foods, etc.” must be submitted by importers to the quarantine station with jurisdiction over the port of entry. Based on the content of this notification form and the import history of the wine, inspection may be required.

According to JETRO, if the wine is being imported into Japan for the first time, it may be exempted from inspection requirements at the quarantine station if the importer attaches a statement of voluntary inspection results performed in advance by official laboratories designated by the MHLW, or by official laboratories in the exporting country. For details on permissible wine additives, please refer to the Japanese Food Sanitation Law (www.jetro.go.jp/se/e/standards_regulation/food2003mar-e.pdf).

2. Labeling requirements

The table on next page lists labeling requirements for wine. Labeling must be in Japanese and must be attached to the container in a visible location. Wine without the required labeling may not be sold, displayed for purposes of sale, or used for other commercial purposes.

Fig. 19: Labeling requirements for wine

Label Item	Requirement	Name of Statute*
Product Name	Wine, fruit wine, or sweetened fruit wine	FSL
Food Additives	Name of substance (and usage category) of anti-oxidants or synthetic preservatives, etc.	FSL
Alcohol Content	Label must list the ethyl alcohol content at 15°C as a percentage of total volume rounded to the nearest percentage point (Example: "14%" or "Over 14% and less than 15%").	LBA/MSR/LT
Container Volume	Listed in milliliters (<i>ml</i>) or liters (<i>l</i>)	LBA/MSR/LT, ML
Type	Sparkling wine labels must state, "Contains carbonation," or, "carbon dioxide gas mixture."	LBA/MSR/LT
Country of Origin	States where the wine was produced.	AUPRMR
Name and Address of Importer	Label must include the name and address of the importer.	FSL, LBA/MSR/LT
Destination	Label must list the destination after removal from the bonded area, or the location of the bottler or packager. However, a symbol may be used with the permission of the Ministry of Finance.	LBA/MSR/LT
Other Requirements	(1) Blends of imported and domestic wine Wines made from mixtures of domestic and imported wines must list the wines in order of quantity. For example, "Made from domestic and imported wine."	Voluntary industry standard
	(2) Geographic labeling For products such as Bordeaux and Chablis, whose product quality and reputation fundamentally arise from the place of origin, it is not permitted to use these geographic designations for products produced elsewhere.	Labeling standard based on LBA/MSR/LT and ML
	(3) Labeling to prevent consumption by minors All liquor containers must clearly state, "Consumption of alcohol by minors is prohibited," or, "Alcohol may only be consumed by those age 20 or over."	Labeling standard based on LBA/MSR/LT and ML
	(4) Promotion of recycling of liquor containers Products packed in steel cans, aluminum cans, and PET bottles must have an identifying mark on the container.	Law for Promotion of Utilization of Recycled Resources

* · Food Sanitation Law: FSL (www.jetro.go.jp/se/e/standards_regulation/food2003mar-e.pdf)

· Measurement Law: ML (http://www.jetro.go.jp/se/export_to_japan/files/oto/o-44.html)

· Law Concerning Liquor Business Association and Measures for Securing Revenue from Liquor Tax: LBA/MSR/LT (http://www.jetro.go.jp/se/export_to_japan/files/oto/o-31.html)

· Act Against Unjustifiable Premiums and Misleading Representation: AUPRMR (www.jetro.go.jp/se/export_to_japan/files/std/s-10.pdf)

Source: JETRO Marketing Guidebook for Major Imported Products - Wine 2002.

3. Requirements under the new packaging recycling law

The Japanese government began full implementation of the Packaging Recycling Law in April 2000, which requires the industry to recycle all paper and plastic packaging, glass bottles, steel and aluminum cans, PET bottles, and other plastic and paper containers. Manufacturers, distributors, and retailers who manufacture and/or use the materials are responsible for recycling costs. For imported products, importers may be liable for such costs.

In the case of wine, according to industry sources, some importers have requested that exporters use colorless glass bottles if possible, and a number of wines in clear bottles have appeared on the market. However, this is only appropriate for less-expensive or early drinking wines that will be consumed within two to three weeks after purchase. For more premium wines, generally speaking, the industry continues to use colored bottles, despite the added recycling costs. Green bottles pose the biggest problem since there are few uses for the recycled product.

Current recycling charges by type of container, effective August 2003, to be paid to the Japan Containers and Packaging Recycling Association are as follows:

Colorless glass	¥3,000/metric ton
Brown glass	¥5,700/metric ton
Green/other colored glass	¥8,600/metric ton
PET bottles	¥64,000/metric ton
Paper containers	¥25,200/metric ton
Plastic containers	¥76,000/metric ton

4. Tariff and tax situation

WTO Uruguay Round tariff reductions

Import duties on wine have been reduced gradually since implementation of the WTO Uruguay Round agreement. The final reduction was in April 2000, when, most notably, the tariff rate on bottled wine was lowered to 15% (or ¥125/l, whichever is less, to a minimum of ¥67/l) from its 1999 level of 21.3% (or ¥150.83/l, whichever is less, to a minimum of ¥80.83/l). Tariff reductions on other wine categories have also gone into effect, as summarized in the chart on the following page.

Tariff Rates on Wine (as of April 2003)

Bottled Wine	
-HS220421020 (2L or less)	15% or ¥125/l, whichever is less, to a minimum of ¥67/l
-HS220429010 (2L to 150L)	15% or ¥125/l, whichever is less, to a minimum of ¥67/l
Sparkling Wine	
-HS220410000	¥182/l
Wine Coolers	
-HS220600221 (Other fermented beverage mixtures)	¥27/l
Bulk Wine	
- HS220429090 (>150L)	¥45/l
Grape Must	
-HS220430191 (1%+ alcohol, less than 10% sucrose by weight)	19.1%
-HS220430200 (1% + alcohol – other)	¥45/l
Vermouth	
-HS220510000 (2L or less)	¥69.3/l
-HS220590200 (1%+ alcohol)	¥69.3/l
Sherry/Fortified Wine	
-HS220421010	¥112/l

Source: Customs Tariff Schedules of Japan 2003, Japan Tariff Association.

Liquor Tax Law regulations

The liquor tax rate was increased by 30 percent for wine and 10 percent for sweetened wine in May 2003. This increase is reflected in higher prices for most alcoholic beverages and has depressed alcohol consumption.

Tax rate on wine before/after the tax increase

		Per kiloliter	Per bottle
Wine	Before	56,500 yen/kl	42 yen/bottle
	After	70,472 yen/kl	53 yen/bottle
Sweetened wine*	Before	98,600 yen/kl	74 yen/bottle
	After	103,722 yen/kl	78 yen/bottle

*For liquor with an alcohol content of 13 percent or higher, an additional 8,644 yen/kl (8,220 yen before the increase) is levied for each percentage point above 12 percent.

Exchange Rates

The following exchange rates are used throughout this report:

1999 ¥114.54 /\$
 2000 ¥109.07 /\$
 2001 ¥121.61 /\$
 2002 ¥125.19 /\$
 2003 ¥122.00 /\$ (Jan – Jun)
 ¥119.00 /\$ (Jul – Dec)

Source: US Treasury Department; Bank of Japan.

APPENDIX II: STATISTICAL TABLES

Table 1: Wine imports by type

Volume (000 hectoliters)				
	2000	2001	2002	2003 six months increase (decrease) from 2002 %
Bottled Wine	1,282.6	1,366.8	1,360.3	(0.6)
HS220421020 (2L or less)	1,236.0	1,306.5	1296.1	(1.5)
HS220429010 (2L to 150L)	46.5	60.2	64.2	15.9
Sparkling Wine	107.0	124.3	133.0	
HS220410000	107.0	124.3	133.0	(0.1)
Wine Coolers	30.2	37.1	46.7	
HS220600221 Other Fermented Beverage Mixtures	30.2	37.1	46.7	32.5
Bulk Wine	259.4	191.0	177.6	
HS220429090 (>150L)	259.4	191.0	177.6	(14.6)
Grape Must	59.4	56.5	60.7	12.6
HS220430191 (1%+ alcohol, less than 10% sucrose by weight)	0.5	0	0	-
HS220430200 (1%+ alcohol - other)	59.0	56.5	60.7	12.6
Vermouth	32.5	26.9	21.1	(9.7)
HS220510000 (2L or less)	32.3	26.4	20.5	(9.8)
HS220590200 (1%+ alcohol)	0.2	0.5	0.6	0
Sherry/Fortified Wine	8.5	9.4	8.5	
HS220421010	8.5	9.4	8.5	15.0

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

(Table 1 continued)

Value (¥ bill)				
	2000	2001	2002	2003 six months increase (decrease) from 2002 %
Bottled Wine	66.9	74.9	78.9	2.6
HS220421020 (2L or less)	66.0	73.8	77.6	2.6
HS220429010 (2L to 150L)	0.9	1.1	1.3	1.8
Sparkling Wine	14.4	17.0	18.2	
HS220410000	14.4	17.0	18.2	12.1
Wine Coolers	0.7	0.9	1.3	
HS220600221 Other Fermented Beverage Mixtures	0.7	0.9	1.3	27.3
Bulk Wine	3.1	2.3	1.9	
HS220429090 (>150L)	3.1	2.3	1.9	(22.6)
Grape Must	1.5	1.2	1.1	(13.8)
HS220430191 (1%+ alcohol, less than 10% sucrose by weight)	*	0	0	-
HS220430200 (1%+ alcohol - other)	1.5	1.2	1.1	(13.8)
Vermouth	0.9	0.8	0.6	(0.3)
HS220510000 (2L or less)	0.9	0.8	0.6	0.4
HS220590200 (1%+ alcohol)	*	*	*	(4.5)
Sherry/Fortified Wine	0.6	0.7	0.6	
HS220421010	0.6	0.7	0.6	15.0

*: Less than 0.05.

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 2: Bottled wine imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	France	527.0	587.9	617.1	44	(7.7)
2	Italy	254.6	296.8	280.1	20	(6.9)
3	United States	153.5	154.8	148.2	10	22.9
4	Germany	114.7	96.4	85.5	6	(20.6)
5	Chile	85.7	90.9	78.2	5	(7.5)
6	Spain	47.3	50.7	59.7	4	(2.3)
7	Australia	51.3	45.2	48.2	3	2.0
8	South Africa	14.4	13.4	15.8	1	11.7
	Others	34.1	30.8	27.2	2	(9.3)
	Total	1,282.6	1,366.9	1,360.0	100	(4.0)

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	France	38.9	43.8	46.8	59	3.3
2	Italy	9.0	11.4	12.4	15	4.8
3	United States	6.3	6.7	6.6	8	2.1
4	Germany	3.9	3.6	3.5	4	(5.3)
5	Chile	3.1	3.7	3.3	4	(14.5)
6	Australia	2.0	1.8	2.1	2	7.6
7	Spain	1.7	1.8	2.0	2	8.5
	Others	2.1	2.2	2.1	2	(3.2)
	Total	67.0	75.0	78.8	100	2

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 3: Sparkling wine imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	France	45.4	52.8	55.1	42	2.6
2	Italy	27.3	35.6	39.7	31	(9.2)
3	Spain	21.0	20.4	20.6	16	(6.7)
4	United States	5.5	6.3	7.6	6	(36.9)
5	Germany	5.1	6.1	6.6	5	(11.8)
6	Australia	1.5	2.2	2.4	2	3.0
	Others	1.1	0.8	1.1	1	57.5
	Total	106.9	124.2	133.1	100	(3.2)

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	France	11.5	13.4	14.2	78	15.9
2	Italy	1.3	1.7	2.1	11	(4.7)
3	Spain	1.1	1.0	1.1	6	(8.7)
4	United States	0.3	0.3	0.3	2	(28.1)
5	Germany	0.2	0.3	0.3	2	16.6
	Others	0.2	0.2	0.2	1	11.2
	Total	14.6	16.9	18.2	100	12.2

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 4: Wine cooler imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	United States	16.1	21.7	29.5	64	25.5
2	Germany	10.1	8.1	8.8	19	(59.0)
3	France	2.8	5.5	6.7	14	23.6
4	Thailand	0.4	0.5	0.5	1	(35.3)
	Others	0.7	1.2	1.2	3	1177.1
	Total	30.1	37.0	46.7	100	34.5

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	United States	0.4	0.4	0.7	50	7.7
2	France	0.1	0.3	0.4	31	28.5
3	Germany	0.2	0.2	0.2	15	(48.6)
4	Italy	*	*	*	1	(43.8)
	Others	*	*	*	2	526.9
	Total	0.7	0.9	1.3	100	17.4

*: Less than 0.05.

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 5: Bulk wine imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Argentina	47.6	50.6	48.8	27	(0.7)
2	Chile	14.7	18.7	30.4	17	34.6
3	Bulgaria	56.2	28.4	30.0	17	(40.5)
4	France	12.3	9.7	15.5	9	(45.7)
5	Italy	6.2	6.5	12.6	7	(36.1)
6	Spain	14.8	14.4	7.4	4	(7.6)
7	South Africa	19.3	9.6	7.0	4	(38.0)
8	Macedonia	21.7	7.5	6.1	3	25.9
9	Hungary	12.2	4.7	5.9	3	(59.8)
10	United States	10.1	6.3	4.8	3	27.5
11	Romania	19.2	13.5	4.6	3	(50.0)
	Others	25.0	20.9	4.4	2	(79.0)
	Total	259.3	190.8	177.5	100	(13.5)

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Argentina	0.4	0.5	0.4	21	(17.9)
2	Chile	0.2	0.3	0.3	16	19.9
3	Bulgaria	0.6	0.3	0.3	15	(49.0)
4	France	0.2	0.2	0.3	14	(33.1)
5	Italy	0.1	0.1	0.2	8	(15.1)
6	Spain	0.2	0.2	0.1	5	(10.1)
7	United States	0.2	0.2	0.1	4	32.7
	Others	1.0	0.6	0.3	3	(26.3)
	Total	2.9	2.4	2.0	100	(18.9)

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 6: Grape must imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Argentina	44.9	50.1	49.5	82	3.8
2	Chile	10.5	3.2	8.1	13	76.3
3	South Africa	4.0	3.3	3.0	5	149.1
	Others	0.1	*	0.1	**	(100)
	Total	59.5	56.6	60.7	100	18.7

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Argentina	1.1	1.1	0.9	80	(23.8)
2	Chile	0.3	0.1	0.2	16	56.4
3	South Africa	0.1	0.1	0.1	5	115.5
	Others	*	*	*	1	(99.9)
	Total	1.5	1.3	1.2	100	(7.3)

*: Less than 0.05.

** : Less than 1%.

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 7: Vermouth imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Spain	5.1	4.4	6.5	31	(28.4)
2	Italy	6.2	8.8	5.3	25	36.8
3	China	4.8	4.6	3.3	16	(29.6)
4	United States	11.7	5.0	2.6	12	(100)
5	France	4.6	3.6	2.4	11	24.1
6	Germany	0.0	0.3	0.8	4	(22.0)
	Others	0.1	0.1	0.1	1	(1.8)
	Total	32.5	26.8	21.0	100.0%	(19.2)

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Italy	0.2	0.3	0.2	31	41.5
2	France	0.2	0.2	0.1	19	31.3
3	Spain	0.1	0.1	0.1	19	(23.2)
4	China	0.1	0.1	0.1	17	(12.2)
5	United States	0.3	0.1	0.1	9	(100)
6	Germany	*	*	*	2	(24.7)
	Others	*	*	*	1	0
	Total	0.9	0.8	0.6	100	(6.3)

*: Less than 0.05.

Source: World Trade Atlas, based on Japan Customs data (CY January - December).

Table 8: Sherry/fortified wine imports by supplying country

Volume (000 hectoliters)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Portugal	4.4	4.9	4.2	50	6.9
2	Spain	2.5	2.8	2.9	34	(29.2)
3	Italy	1.0	1.0	0.9	11	(3.4)
4	France	0.1	0.2	0.4	4	65.3
5	United States	0.3	0.3	0.2	2	112.0
	Others	0.1	0.3	0.1	1	7.7
	Total	8.4	9.5	8.7	100	(0.1)

Value (¥ bill)						
Rank	Country	2000	2001	2002	2002 Share %	2003 six months increase (decrease) from 2002 %
1	Portugal	0.4	0.4	0.3	53	22.0
2	Spain	0.2	0.2	0.2	31	(13.3)
3	France	*	*	*	7	74.0
4	Italy	*	*	*	6	38.8
5	United States	*	*	*	1	63.8
	Others	*	*	*	1	44.0
	Total	0.6	0.6	0.5	100	17.2

*: Less than 0.05.

Source: World Trade Atlas, based on Japan Customs data (CY January - December).